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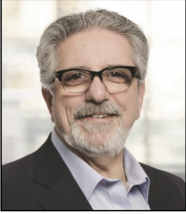
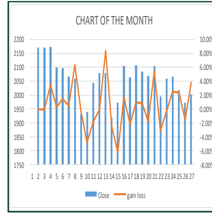
VOL. 10, ISSUE 4 APR 2021

"A mistake made by many traders is that they become so involved in trying to catch the minor market swings that they miss the major market moves" - *Jack Schwager*



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza
THE VALUE OF SEGREGATED FUNDS



THE NEW RETIREMENT REALITY

Ryan Simone, CLU, CHS
GUARANTEED DEATH BENEFIT ON RETIREMENT ASSETS

Editorial Comment

Sergio Simone

Earlier this month I was involved in a conversation with a client who asked for my opinion on what I thought the catalyst would be that would push us into a long-term Bear Market. I repeated a litany of sound bytes of events that might lead to the dreaded Bear Market. This conversation lingered with me for a few days as I weighed various possibilities. Although there are several potential catalysts the dominant culprit, in my mind, was inflation. I believe a disruptive inflationary spiral is inevitable.

Continue Reading

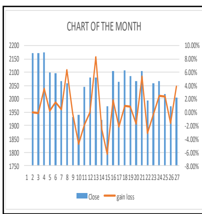
The Value of Segregated Funds

Kristina De Souza

In this dynamic industry, part of our role as advisors involves constantly evolving and seeking relevant and valuable solutions to meet our clients changing needs. Sometimes it turns out that the tools we utilize need not be innovative at all; but rather the way we employ them in an overall strategy is what's novel.

Continue Reading

The New Retirement Reality



Canada's population is aging at an accelerated rate.

An unprecedented number of Canadians are making the transition to retirement.

With defined benefit plans on the decline in the private sector, many retirees bear the responsibility of funding their retirement.

Continue Reading

Guaranteed Death Benefit on Retirement Assets

Ryan Simone, CLU, CHS

My email inbox is flooded daily with messages about the latest investment products, the biggest investment trends, and the best performing mutual funds. The financial planning market-place is full of stuff. Some good, some bad, and most with zero application to your own situation. It can be a lot like a visit to a big box hardware store.

Continue Reading

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RYAN SIMONE

We are delighted to announce that Ryan Simone's CFP certification has been approved and Ryan is now a **CERTIFIED FINANCIAL PLANNER®** professional. This means that Ryan can now identify himself as a CFP professional.

As a CFP professional Ryan joins a select group of professionals, who have demonstrated the knowledge, skills, experience and the ethics to examine their clients' entire financial picture, at the highest level of complexity required of the profession.

As the most widely recognized financial planning designation in Canada and worldwide, the **CERTIFIED FINANCIAL PLANNER®** designation provides assurance to Canadians that the design of their financial future rests with a professional who will put their client's interests ahead of their own.

There are approximately 17,000 CFP professionals across Canada, part of an international network of more than 175,000 CFP professionals in 26 territories around the world.

To obtain the CFP designation, candidates must complete a rigorous education program, pass a national exam and demonstrate three years of qualifying work experience. To maintain certification, CFP professionals must keep their knowledge and skills current by completing 25 hours of continuing education each year. They must also adhere to the FP Canada Standards Council ***"Standards of Professional Responsibility",*** including a Code of Ethics which mandates that CFP Professionals place their clients' interests first. The Standards Council vigilantly enforces these standards.

Congratulations again and we all wish Ryan great success as a CFP professional!

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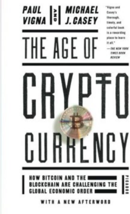
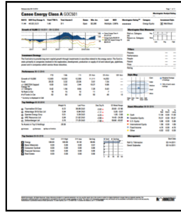


BOOK OF THE MONTH

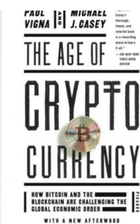


FUND OF THE MONTH RENAISSANCE GLOBAL HEALTH CARE

INVESTMENT TERMINOLOGY

BLOG OF THE MONTH IMF BLOG

BOOK OF THE MONTH

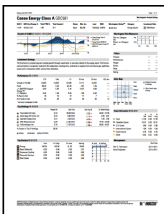


THE AGE OF CRYPTOCURRENCY

- by Paul Vigna and Michael J. Casey

Bitcoin became a buzzword overnight. A cyber-enigma with an enthusiastic following, it pops up in headlines and fuels endless media debate. You can apparently use it to buy anything from coffee to cars, yet few people seem to truly understand what it is. This raises the question: Why should anyone care about bitcoin?

FUND OF THE MONTH



RENAISSANCE GLOBAL HEALTH CARE

The fund invests primarily in U.S. companies and global companies with U.S. operations or exposure to U.S. markets or whose securities are traded on a U.S. exchange, which are engaged in the design, development, manufacturing and distribution of products or services in the health care sectors. The Fund will invest in a diversified portfolio, which will mainly include securities in the medical technology, biotechnology,

VALUE INVESTING

This investment strategy involves picking stocks that trade for less than their intrinsic or book value. Investors believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond to a company's long-term fundamentals. The overreaction offers an opportunity to profit by buying stocks at discounted prices—on sale. Warren Buffett is probably the best-known value investor today.

BLOG OF THE MONTH

From Vaccines To V-Shaped Recovery In Europe

One year into the pandemic, Europe finds itself at another turning point. New waves of infection are hitting the continent, requiring new lockdowns. But, unlike last year, safe and effective vaccines are now available. While the pace of vaccination is still slow, an end to the pandemic is in sight. Reflecting the periodic infection waves and the pace of vaccinations, the economic recovery in Europe is still halting and uneven. While industrial production has returned to pre-pandemic levels, the service sector is still contracting.

However, looking ahead, we project that Europe's economic growth will rebound by 4.5 percent this year. Assuming that vaccines become widely available this year and throughout next, as still expected, growth is projected at 3.9 percent in 2022. This will bring Europe's output back to its pre-pandemic level but not to the path expected before the pandemic.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

BILLIONAIRES GOT 54% RICHER DURING PANDEMIC, SPARKING CALLS FOR "WEALTH TAX"

The world's 2,365 billionaires enjoyed a $4 trillion boost to their wealth during the first year of the pandemic, increasing their fortunes by 54%, according to a new analysis by the Program on Inequality at the left-leaning Institute for Policy Studies.

Between March 18, 2020, and March 18, 2021, the wealth held by the world's billionaires jumped from $8.04 trillion to $12.39 trillion, according to the IPS' analysis of data from Forbes, Bloomberg and Wealth-X.

NOMAD CAPITALIST

HOW TO BECOME AN ULTRA HIGH-NET WORTH INDIVIDUAL

Wondering how to become an ultra high-net worth individual? Here are my nine best tips to use to increase your wealth.

Key Points and times and when they begin in video.

0:00 Building long-term wealth **2:28** Intentional mindset **3:48** Being wealthy as your top priority **6:21** Passion for work **7:37** Focus on goals, not numbers **10:15** Increase your risk tolerance **11:35** Be self-reliant **13:45** Set targets **18:50** Focus on active income **20:54** Save more than you spend **22:07** Don't be cheap **23:53** Diversification

FINANCIAL POST

HOW ONE OF THE WORLD'S GREATEST HIDDEN FORTUNES WAS WIPED OUT IN DAYS

From his perch high above Midtown Manhattan, just across from Carnegie Hall, Bill Hwang was quietly building one of the world's greatest fortunes.

Even on Wall Street, few ever noticed him — until suddenly, everyone did.

Hwang and his private investment firm, Archegos Capital Management, are now at the center of one of the biggest margin calls of all time — a multibillion-dollar fiasco involving secretive market bets that were dangerously leveraged and unwound in a blink.

10 THREATS ULTRA HIGH NET WORTH FAMILIES FACE (And How To Avoid Them)

With enormous wealth comes enormous complexity, particularly when investors are seeking to protect and provide for their family. Ultra-High Net Worth investors, defined as investors who have over $30 million in investable assets, have an entirely unique set of challenges and opportunities when it comes to their portfolio, and to the legacy they hope to leave behind. Accruing extraordinary wealth does not shield them from risk or threats, they just appear different than they might for a standard, or even HNW, investor. From leveraging opportunities to strategies that can help preserve wealth in a downturn, UHNW wealth managers are well-versed in the threats that UHNW families face – and how to mitigate them.

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FUND MANAGER COMMENTARY

DAVID STONEHOUSE
AGF INVESTMENTS INC

ERIC LASCELLES
RBC GLOBAL ASSET MANAGEMENT

TODD MATTINA
MACKENZIE INVESTMENTS

PHILIP PETURSSON
MANULIFE INVESTMENT MANAGEMENT

David Stonehouse, Sr V.P., Head of N.A and Specialty Investments

AGF Investments Inc.

The Beginning Of The End Of An Era In Bonds

In 1982, Pierre Trudeau was Prime Minister of Canada. M*A*S*H and Dallas were hit TV shows. The first commercially available laptop computer, the Osborne 1, had just been released; it weighed almost 24 pounds.

Continue Reading

Eric Lascelles, Chief Economist

RBC Global Asset Management

Investment Outlook Spring 2021 Video

In this video, Chief Economist Eric Lascelles shares his positive economic growth outlook amidst vaccine progress and U.S. fiscal stimulus. He also comments on rising inflation concerns, observing the upward pressures that pose mild risk.

Continue Reading

Todd Mattina, Sr. VP, Chief Economist, Portfolio Manager

Mackenzie Investments

Infrastructure: Promise and Pitfalls

Having successfully passed their US $1.9 trillion American Rescue Plan Act (ARPA), President Joe Biden and Congressional Democrats are turning their attention to infrastructure spending. Infrastructure traditionally garners bipartisan support, suggesting scope for a bipartisan bill.

Continue Reading

Philip Petursson, Chief Investment Strategist

Manulife Investment Management

Economic Growth, Inflation, Earnings—Defining The 2021 Markets

As my team and I were discussing the markets and our model portfolio over the last few weeks, one question that kept coming up was, “Did we just get a year’s worth of market movement in a quarter? If so, then what’s left? And if not, then where do we go from here?” By this, we point to the rapid rise in U.S. Treasury yields (and Canadian yields for that matter), the gains in oil and other commodity prices, and equity market returns. In short, we concluded that no, the year hasn’t been front-ended. In fact, we suggest that while the speed of the market movement was faster than we anticipated, things have progressed directionally, as expected.

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LINKS

To Page 2

The VIX Is Collapsing As Good News Floods The Market

The fear index is crumbling as one positive story after another

Can A Trust Avoid Tax On A Deceased Person's RRSP?

A trustee's tax liability has limits, a court case suggests.

Why Value Investing Can Come Back Strongly In 2021

2021 has been good for value investors, and the trend is likely

The S&P 500 Is Undervalued, Tech Is In A New Paradigm

Contrary to mainstream opinion, the Implied Risk Premium (ERP)

Consumer Confidence Highest In A Year

The headline number of 109.7 was an increase of 19.3 from the final reading of 90.4 for February

Tax Tips For Business Owners: Filing Your 2020 Return

Last year, many Canadians became business owners for the

Cryptocurrency Market Value Tops $2 Trillion For The First Time

The value of the cryptocurrency market topped $2 trillion for the first time on Monday. Ether hit

Canada's Q1 Downtown Office Vacancy Rate Rises To 14.3%

The vacancy rate increased for the fourth straight quarter

Writing The Future: The Technological Paradigm Shift And The New Economy

Self-driving cars, robots that cook

MANAGING DIVERGENT RECOVERIES

Global prospects remain highly uncertain one year into the pandemic. New virus mutations and the accumulating human toll raise concerns, even as growing vaccine coverage lifts sentiment. Economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced

Global Asset Management

BALANCING RISING BOND YIELDS AND INFLATION EXPECTATIONS IN YOUR PORTFOLIO

Markets look very different today than they did a year ago. What are your thoughts on the past year and how are you positioning the portfolios for the year ahead?

It has certainly been an interesting year and one that has tested the resilience of many investors. Looking back, I can honestly say that was a stressful time and I was certainly not immune to those feelings of uncertainty as I sat in my home office watching the markets and managing the funds.

VIDEO LINKS

Fidelity's Three Sustainable Investing Themes For 2021

Fidelity sees three major sustainable investment trends taking shape in 2021.

There's More To Inflation Than The Money Supply

The printer may be going "brrrrr" but increasing the money supply doesn't necessarily lead to

2021 Global Market Outlook. Q2 Update. The Second Coming

Vaccines and U.S. stimulus have the global economy on track for a

U.S. ESTATE TAX ISSUES FOR CANADIANS

Death and taxes—two sure things in life. Did you know that even if you're resident in Canada when you die, if you own U.S. property—perhaps a vacation home in Florida, a ski chalet in Idaho or U.S. securities—you may be subject to U.S. estate tax?

U.S. estate tax arises on the death of an individual and is applied at graduated rates to the fair market value of the individual's taxable estate. The same rates apply whether the individual is a U.S. citizen, a U.S. resident, or a non-resident of the U.S.

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EDITORIAL COMMENT - CONTINUED

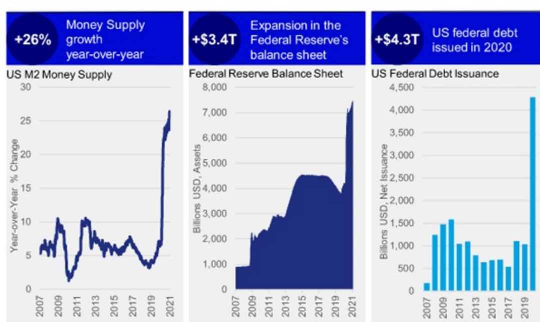
I don’t need a crystal ball to make this forecast. This is the logical conclusion following the massive trillion-dollar policy responses designed to offset the horrid economic effects of COVID-19. The question should be: “Will inflation cause the markets to derail?” As I write this, I do not see enough inflation risks to challenge the benefits of the 40%+ Earnings Per Share growth through 2021.

A parade of Central Banks around the world including the U.S. Federal Reserve have massively increased the money supply and their balance sheets. This has led to significant increases in federal debt levels which should ultimately lead to inflationary pressures. I am not convinced that this is a bubble in the making, even if the consensus indicates otherwise. The following chart illustrates the massive growth in U.S. Money Supply, The Federal Reserve Balance Sheet and the U.S. Federal Debt issued in 2020. The spike is unmistakeably prominent that we automatically assume we are looking at an impending crash.

The Problem: Rise in Money

The Fed’s expanding balance sheet, massive fiscal spending, and surging money growth – isn’t this all inflationary?

Among the primary concerns of investors is that a disruptive inflationary spiral may be in the offing, the result of the massive policy responses designed to offset the ill effects of the COVID-19 outbreak and the demand destruction of “The Great Shutdown.” Investors point to the massive increase in the US money supply, the sizeable expansion of the Federal Reserve’s balance sheet, and the significant increase in US federal debt as signs that inflationary pressures will begin building.



Sources: Bloomberg, Macrobond, SIFMA, Federal Reserve, as of 28 February 2021. M2 is coins and notes in circulation plus short-term deposits in banks and certain money market funds.

Invesco 2

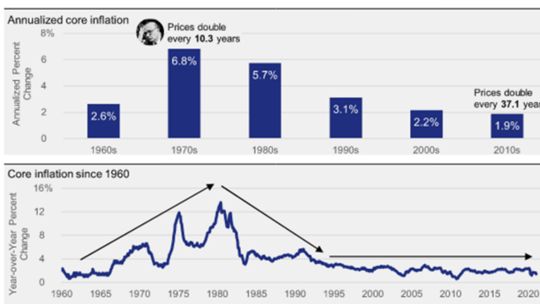
I cannot help but recall with a little bit of dread, the recession we lived through between 1980 and 1983. A recession some consider the most severe since WWII. Many attribute the cause of this recession to the 1979 Energy Crisis, caused by the Iranian Revolution which disrupted global oil supply pushing prices sharply higher from late 1978 ($14.95) to early 1980 ($37.42). This was the catalyst that pushed inflation rates into the double digits, reaching a high of 14.76% in April 1980. I recall having a mortgage at the time of 17.5% and was grateful that I was able to get a discounted rate through my employer.

Is this the future we should be preparing ourselves and our investment portfolios? Afterall, despite all the nervousness displayed by investors about looming inflation, we have not seen any substantial, broad-based inflationary trends since the early 1980s.

The Problem: Remember Inflation?

We have not seen substantial, broad-based price changes since the 1980s

For all the persistent hand wringing about looming inflation, it has been decades since the US has experienced sustained high and rising aggregate price increase. Structural forces such as increased globalization, productivity advancements, and aging populations globally have fostered a multi-decade moderation in prices.



Sources: Macrobond, US Bureau of Labor Statistics, as of 28 February 2021.

Invesco 3

The inflationary explosion in 1979 was inevitable when the supply of oil was drastically cut while the amount of money chasing that oil remained level. This is the epitome of inflation when too much money is chasing too few goods. I question whether this is applicable today.

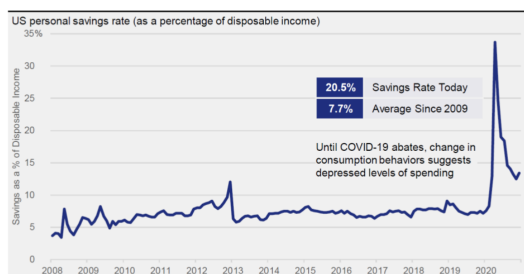
Currently, the velocity of money, or the number of times one dollar is spent to buy goods and services, is near the slowest on record. In other words, there is not a lot of money chasing anything! The issue is not that there are too few goods as the US output gap, the difference between the actual output of the economy the projected output, is historically wide. This suggests that the U.S. could easily increase production if and when the velocity of money begins to accelerate.

EDITORIAL COMMENT - CONTINUED

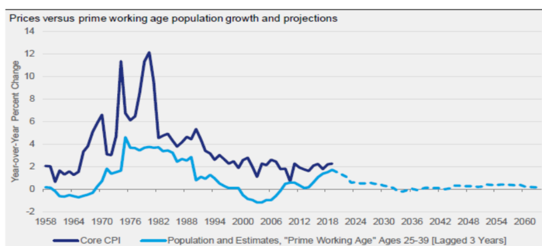
Logically, we would expect inflation to trend higher from current levels as the US economic recovery picks up speed. This translates into a favorable view for the equity and credit markets. In my opinion all the stimuli will act as a tailwind that is likely going to add sustenance to a recovering economy, especially once herd immunity is achieved and the economy enters a full-blown reopening.

I believe, as employment numbers settle back to a normal range and the fiscal stimulus packages tighten, what some may see as overheating today may simply become the force that propels the recovery in the future.

Another catalyst that may temporarily push inflation numbers up is a return to normal spending habits post-pandemic. The following chart shows a spike in the current Savings Rate (20.5%) verses the average since 2009 (7.7%). The pandemic caused a distortion in consumption and spending habits. I expect this will trend back to normal once herd immunity begins to take effect. This will significantly increase the amount of money that will find its way into the economy.



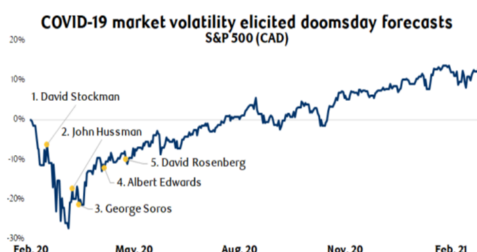
Countering the inflationary effects of this spending may be the natural aging of our population. Demographics are likely to play a major role in keeping excessive inflation under control. A combination of falling U.S. population growth and the increase in the average age of the population are likely to be a persistent headwind to inflation. The following chart shows the rate of growth of the 25 to 39 year-old cohort group has correlated with the change in prices excluding food and energy. Population projections from the Census Bureau allude to slowing growth of this cohort, which will likely put downward pressure on inflation.



In closing I'd like to leave you with a thought.

"WE CANNOT PREDICT, WE CAN ONLY PREPARE".

Volatility is a normal part of investing. It is something doomsayers exploit knowing there is a chance their outlandish outlooks might come to fruition. However, there is no telling when sustained periods of volatility will emerge or what will cause these periods to occur, therefore making it fruitless for investors to pay too much attention to advice offered up by these pundits. Look at the claims and market behavior to these five highly respected pundits and their predictions in the first half of 2020.



Market Doomsayer	Date	Prediction	Market return since
1. David Stockman	March 4, 2020	The market is headed for a 50% correction and a long L-shaped bottom.	25%
2. John Hussman	March 26, 2020	The S&P 500 will lose about two-thirds of its value in the coming years.	41%
3. George Soros	April 1, 2020	We're going to have the worst bear market in my lifetime.	36%
4. Albert Edwards	April 23, 2020	The collapse in corporate profits will prevent equities from looking through the valley.	26%
5. David Rosenberg	May 12, 2020	While the stock market is telling you this is all figured out, long-term risks are to the downside.	22%

Source: RBC GAM, Morningstar. S&P 500 TR CAD, data as of March 16, 2021. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

We are concerned about the importance of surviving periods of market volatility, and we expect the upcoming inflation issues will likely fuel these concerns. An important aspect of successful investing is pulling through prosperous periods by not reacting when markets encounter a new high, or doomsayers share their latest theses. After all, while pundits may be good at making the news, they often miss the full story. They miss the point that rising prices are a normal function of the economy, and more often than not, indicate a stronger and healthier economy. When inflation is put in the context of current economic conditions it may indicate the healthy growth of the economy instead of the start of some devastating inflationary condition.

I'd rather face inflation than deflation any time. Inflation indicates growth while deflation is bad and more difficult to cure. I believe any post-pandemic inflation is more indicative of our economy coming back to life. There is nothing to fear from inflation in these economic times. In fact, I welcome it.

To Page 1 Disclaimer

Philip Petursson - CONTINUED

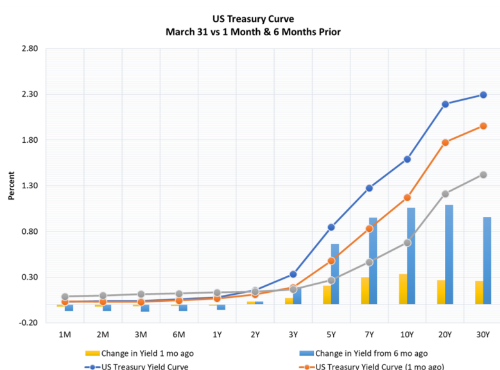
Markets are merely responding to the improving economic and earnings environment that we laid out in our “2021 outlook – the rapid reopen.”

Equity markets performed well through the first quarter, extending the gains made since the market lows of March last year. The S&P 500 Index gained 6.2% in U.S. dollar terms (4.9% CAD), including dividends. Gains were prevalent across most major equity indices with the MSCI EAFE Index up 3.6% in U.S. dollar terms (2.32% CAD) and the MSCI Emerging Markets Index returning 2.3% USD (1.1% CAD), both including dividends.

Our expectation of Canadian equity outperformance against U.S. equities for 2021 appears to have materialized through the first quarter as the S&P/TSX Composite Index gained 8.1%, including dividends. In our 2021 outlook, we highlighted the financials and energy sectors as two sources of potential, given an expected rebound in oil prices (energy) alongside a steeper yield curve (financials). Energy and financials were the second and third-best performing sectors over the quarter, gaining 18.8% and 12.7% respectively, only bested by health care, which gained 37.8%.

Perhaps the biggest surprise to the market was the increase in bond yields. The U.S. 10-year Treasury yield started the year at 0.91% and very quickly rose by 83 basis points to end the quarter at 1.74%. The rise in yields was right in line with our full year 2021 view. We had held the out-of-consensus view that yields would move higher than the market expected; however, we didn’t expect them to move so quickly. The move in U.S. Treasury yields was met by similar movements in Canadian bond yields. The 10-year Government of Canada bond yield gained 88 basis points to finish the quarter at 1.56%. Bond yields rose across several categories. As a result, the FTSE Canadian Universe Bond Index, the benchmark for Canadian bonds, fell 5% during the quarter.

The U.S. Treasury curve has steepened sharply.



Back to the initial question though: “Where do we go from here?” We outline our views in three themes that we believe will define the economic and market environment through the remainder of 2021:

Economic growth is set to surge — surprises to economic growth will skew to the upside.

Higher inflation is the new norm — yields will continue to follow.

Equity market gains will transition from multiple expansion to earnings growth.

Economic growth is set to surge

While countries around the world continue to face new waves of COVID-19 contagion, and lockdowns as a result, we point to some of the recent economic data, which has surprised to the upside, emanating out of the United States for what a full reopen may look like. Last week, for example, the Institute for Supply Management’s Manufacturing Purchasing Managers’ Index (ISM PMI) jumped to 64.7, a level not seen since 1983 (a level above 50 indicates expansion). Additionally, the U.S. Non-farm Payrolls report showed 916,000 jobs were created in the month of March (with an additional 156,000 from revisions to the prior two months), the strongest job gains since last August.

Job gains are starting to reaccelerate.

Some economies, like the United States, have only just started to open up, while others (much of Europe and Canada) remain economically restrained. For example, the combined population of California, Illinois, Massachusetts, and New York is approximately 78.5 million people. These are states that had some of the more stringent lockdowns and are poised to reopen. The recent data, however, would support our thesis from last year that the COVID-19 pandemic is more likely a disruptive even rather than a destructive event. As lockdowns lift, and in line with our rapid reopen thesis, we suggest that the data we’re seeing foretell a surge in economic activity to come.

Higher inflation is the new norm

Our out-of-consensus base case at the start of the year was for inflation, as measured by the U.S. Consumer Price Index (CPI), to accelerate to above 2.5% on a year-over-year basis. We believe January’s 1.4% CPI is the low level for the year.

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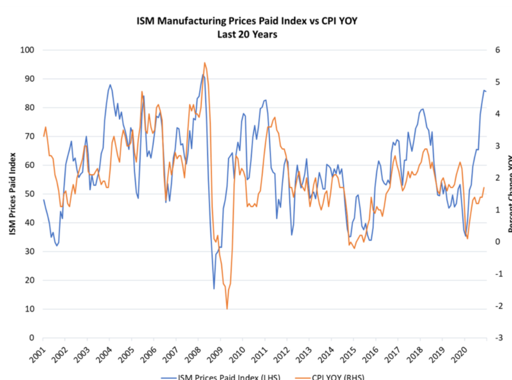
Philip Petursson - CONTINUED

Our inflation model forecasts sustained higher inflation through 2021, with only some moderation in early 2022. The upside risks to inflation remain higher wages (as the travel and hospitality sectors rush to add back staff), continued commodity price pressure (not limited to oil), and higher producer prices.

Evidence of higher inflation is already making its way through the economic data — the ISM PMI Report on Business Prices Index has surged to 85.6, the highest level since 2008. Lumber, one of the biggest costs in home-building after land and labour, has never been more expensive and is more than twice the typical price for this time of year. Crude oil, a starting point for paint, plastics, flooring, etc., has shot up more than 80% since October. Copper, which carries water and electricity, costs about a third more than it did in the autumn. Given the low levels of business inventories combined with the backlog of orders and potential release of pent-up demand, the direction for inflation is most likely higher, not lower.

The signs of higher inflation are right in front of us. Higher inflation expectations have led the U.S. 10-year yield to rise above our full-year target of 1.5% before the end of the first quarter. Our out-of-consensus view of inflation led to a similar out-of-consensus view for yields. As the surge in yields has met our initial target, we've revised our expectations to 2.0%, with risk to the upside through the remainder of the year. This will continue to pose challenges for fixed-income investors when it comes to long-duration bonds.



Equity market gains will transition from multiple expansion to earnings growth

The optimistic economic outlook leads us to our favourable view towards equity markets. Our research suggests that in an environment characterized by accelerating growth and accelerating inflation, major equity markets tend to perform well — in particular, those that are cyclically oriented or have higher exposure to commodities (e.g., emerging markets, Canada).

Over the past year, equity market returns have largely been driven by valuation, or price-to-earnings (P/E), expansion. This is typical of an equity market recovery following a recessionary bear market. This period is typically characterized by stellar equity gains as the market starts to price in a recovery. For those investors who are concerned with the current market valuation, we suggest that higher equity valuation in the context of higher forthcoming earnings growth (today's scenario) is less of a concern than higher valuation and low earnings growth (the 2000 tech wreck scenario). The driver of performance tends to shift to earnings growth and is usually marked by a peak in valuation. We should point out, however, that in earnings-driven environments, market returns tend to be positive yet average to below-average. Therefore, investors would be well served to discount the outsized equity market gains over the past year and return to average expectations. However, we believe that the risk is to the upside.

Periods of strong earnings growth tend to moderate valuation. As we head into first quarter earnings results, we'll be watching closely and paying attention to full-year guidance. Our expectation, given the recent economic data, is that earnings risks are to the upside through 2021 and will be the driver of continued market gains.

Our view towards equities continues to be positive for the coming 12 months on accelerating earnings growth. Equities are fully valued, perhaps over-valued; however, in the context of much stronger earnings growth, we believe valuation is likely to ease over the coming year, which is typical following equity returns driven by multiple expansions.

Our Growth/Inflation Momentum Matrix would suggest that emerging market equities, Canadian equities (the S&P/TSX Composite Index), and commodities tend to do well in an accelerating growth and accelerating inflationary environment. These are areas that we've increased exposure to in the prior two quarters.

Lastly, I'll leave you with these thoughts … My son and I have been looking for new mountain bikes. Apparently, there's little to no inventory in Toronto for mountain bikes. Luckily, I put a deposit down on one back in January for when new inventory comes in. My son decided on one a little later and called the same bike shop to put a deposit down. He was told by the store manager that every bike coming in has been sold. This is before a single bike has arrived in the store. And the shop doesn't know when they will get more inventory. We called almost every bike shop within an hour's drive of Toronto and were told the same thing.

To Page 1 Disclaimer

The Value Of Segregated Funds —Continued

To this point, we recently came across an intriguing solution referred to as the ‘estate’ wedge, which makes use of a tool we’ve had in our belt all along, but admittedly, hasn’t been a major focus in our practice to date.

As times change, so do client’s needs and so do the mechanisms we use to achieve success for them. I have touched on segregated funds in my previous writings, and I’ve always supported the fact that they have their time and place.

The estate wedge strategy essentially uses segregated funds as a sleeve within a portfolio in a similar manner to a ‘cash wedge’, which is used as a means to provide income throughout retirement by allowing clients to park their assets. The fundamental difference lies in the end game, as the asset allocation to segregated funds instead, contributes to the achievement of estate planning goals, and an added layer of protection from compromising scenarios.

As a quick refresher, allow me to highlight some of the benefits inherent to segregated funds that I have touched on in the past.

By design, segregated funds offer protection against market risk by providing a floor on investment returns, while offering an array of benefits from an estate planning perspective. For example, seg funds offer quick payouts upon death of the annuitant to named beneficiaries, which unlike distributions via a will, remains fully confidential.

An added benefit is the level of control of the contract owner, maintaining liquid assets that offer flexibility in payout options to meet estate objectives. In addition to bypassing probate, seg funds offer a vehicle that reduce the flow of assets that pass through the estate, reducing overall estate costs. And finally, a benefit that I have yet to emphasize is the protection against the negative effects of cognitive decline.

This is a preparative strategy that aging clients can take advantage of, for example naming beneficiaries while of sound mind, which is important given that a conflict of interest prevents powers of attorney (POA) from doing so under other circumstances. With an estate wedge, POAs can direct assets from senior parents into an existing segregated fund contract.

Allow me to provide further insight on how the strategy can work, though the options are ample.

The ideal starting point for an estate wedge is allocating anywhere from 20-50% of a portfolio, with a goal to increase this as time goes on. By increasing the wedge as the client ages, it will minimize the value of assets that will be subject to probate. The next step in the process is deciding how many beneficiaries there will be and how much each is to receive, and on what sort of timeline.

If the annuitant wishes to have a quick turnaround time on the distribution of assets to the beneficiaries, this will give an idea of how much to allocate to the segregated fund sleeve of the portfolio. Again, the annuitant has choice in the manner in which payouts occur; from periodic payments over a designated time through an annuity, one-time lump sum payments, or even a combination of both. Regardless, the takeaway is that the assets maintain their liquidity, within the control of the contract owner, and continue to grow with investment strategies ranging from fixed income to equity.

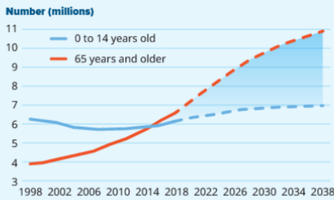
In order to mitigate taxes when it comes to implementing this strategy, it is ideal to transfer assets that are close to their Adjusted Cost Base (ACB), or proceeds from regular year-end tax-loss selling initiatives into the segregated funds. Another opportunity may lie in redirecting excess Registered Retirement Income Funds (RRIF) payments, consolidating maturing GICs, or even proceeds from the sale of a home or cottage, into an estate wedge.

As I mentioned, it’s all in the details, and this strategy can be tailored to suit each client’s planning needs. We strive to provide our clients with the best possible solutions available to them, working together to make the most educated and appropriate decision possible. The potential to implement an estate wedge is yet another value add we can offer. This simple, targeted strategy, it is a valuable approach that when implemented properly will optimize and secure estate planning goals; ultimately providing a scarce resource nowadays: peace of mind.

The New Retirement Reality —Continued

Canada's population is aging at an accelerated rate

An unprecedented number of Canadians are making the transition to retirement.



8 million Canadians will be over 65 by 2026 -

20% of the total population

Retirement wealth is expected to grow **$3.2T** to **$5.45T** by **2030**

36% rise in people reaching 100 since 2015

63 is the average retirement age

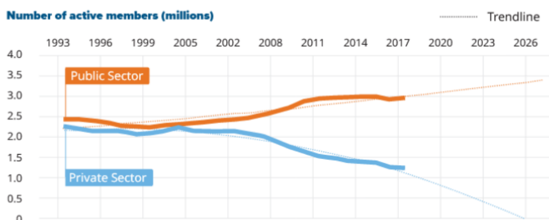
Average life expectancy is **87-89**

That means many can expect to spend **25+ years** in retirement

Sources: Canadian Institute of Actuaries; Statistics Canada

Decline of the DB pension plan

With defined benefit plans on the decline in the private sector, many retirees bear the responsibility of funding their retirement.



Source: Globe and Mail; Statistics Canada; Frederick Vettese

Realistic numbers on retirement

With a focus on accumulating savings through employment, is enough ever enough?

Basic average monthly expenses (CAD$)

Amount	Expense
2,000	Avg. carrying cost of a house
490	Groceries
300	Insurance
300	Entertainment
200	Transportation
200	Misc
3,490 Total	

That's CAD$ **41,880** a year!

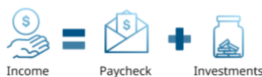
Government pensions fall short by CAD$ **22,800** every year*

*approximate

For illustrative purposes only; each individual's circumstances will vary.

Retirees have different needs as they shift from the accumulation phase to the decumulation phase.

Accumulation Phase



Decumulation Phase

Investment Needs

Why do we need a new approach now?

Risk-free yields continue to decline...

US 10-Year Treasury Yield

Source: Bank of Canada

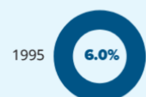
...and volatility has increased.

To maintain the same return, you need to take on triple the risk

- Bonds
- U.S. Large Cap
- Non-U.S. Equity
- U.S. Small Cap
- Real Estate
- Private Equity

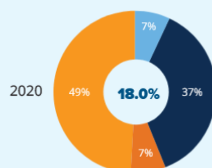
Volatility* to maintain 7.5% return

1995



2005

2020



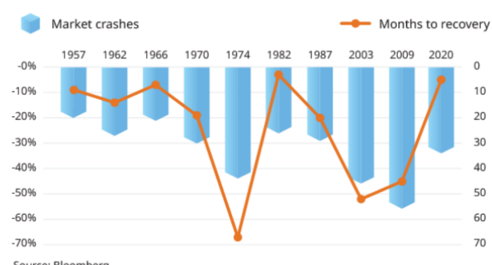
*As measured by standard deviation. Source: Callan Associates, Wall St. Journal; Mackenzie Investments

The New Retirement Reality —Continued

Market crashes happen more often than you think...

Every 6 years on average - investors living 25+ years in retirement may experience up to 4 market crashes in this time!

Max drawdowns from previous market crashes (-20% or more)



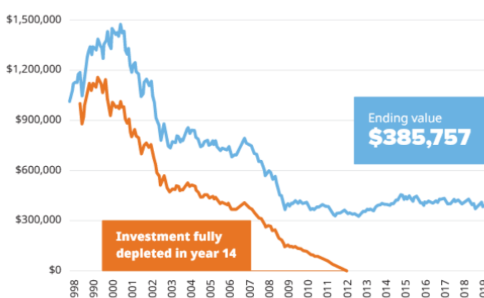
Source: Bloomberg

...and the timing of a bear market can have an outsized impact for income seekers

Investor **A**
Initial $1,000,000 investment – January 1998
$60,000 annual income withdrawn monthly

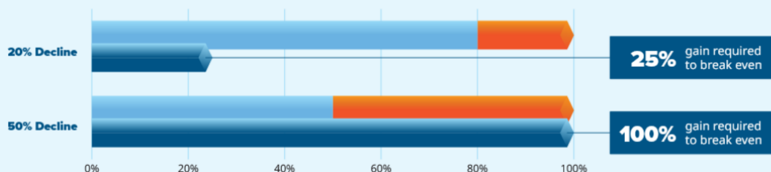
Investor **B**
Initial $1,000,000 investment – August 1998
$60,000 annual income withdrawn monthly

Investor A experienced early positive returns; Investor B experienced early negative returns and found their investment depleted within 14 years.



Source: Morningstar, based on S&P 500. For illustrative purposes only.

Recovering from an extreme decline takes time and significant market gains



This is why we need to rethink retirement portfolios to include income, growth and downside mitigation strategies.

Source: Mackenzie Investments

Retirees need a comprehensive decumulation strategy - and an advisor can make the difference

Source: Power Retirement Study 2019

Mackenzie can help

Retirement leadership

Retirement income solutions

Retirement education & training

Guaranteed Death Benefit on Registered Assets—Continued

You know what you need, you walk in, and you spend 45 minutes looking for it. Then you spend the drive home wondering if you got the right one.

Well, there's a new-'ish' player in the game of estate planning and it comes in the form of a guaranteed death benefit on your registered assets. That's right, you can have an RRSP that holds regular mutual funds at regular mutual fund prices, but with the added benefit of a guarantee on your principle at death. Segregated funds offer the same deal but with an additional one or two percent added on to the fund expense, so why not use the cheaper option?

But wait, there's more!

This also works with TFSAs, LIRAs, RRIFs or any other registered accounts. When I first heard about this product from a colleague, I thought there had to be a catch.

Like when you're at Home Depot and the big in-store super-saver deal screams "80% OFF POWER TOOLS!!". Then you find out the tools don't come with batteries, and those batteries are definitely not on sale. But after doing my due diligence I can safely say there is no catch.

The death benefit guarantee is allowed because the accounts are opened through an insurance company rather than with the mutual fund company directly. The insurance company keeps the fund fee low by purchasing units from the fund company at institutional prices and selling them to the retail investor (that's you) at regular mutual fund prices. The insurance company makes money on the spread in prices, and you get a death benefit guarantee without the additional cost that a seg fund charges. The one stipulation is that you have to be under the age of 75 to lock in the death benefit guarantee, but once it's locked in, the death benefit guarantee stays with you for life.

This has significant applications for financial planning and in particular, estate planning. Think about the estate implications for a 74-year-old to be able to lock in their principle at death but also take part in the potential growth a top mutual fund can offer.

In case it's been a long day, here's a 'plan for the worst and hope for the best' scenario to show how well this works: Let's say when our 74-year-old turns 80 we hit a nasty 2008-type recession (planning for the worst). A real Black Swan event that nobody could have predicted, and everything drops by 30%-50%. The 80-year-old locked in a $1 million principal death guarantee six years earlier when he was 74 and, to keep things simple, hasn't taken any money from the account. He earned a modest 4.5% during the 6-year period and just before the big black swan hit, our 80-year-old had $1,302,260. If that amount were to drop by 30%, our 80-year-old would have $911,582 in his registered account. Now let's say that unlike the Covid-19 recession of 2020, the markets will take a couple of years to get that money back.

In the meantime, our 80-year-old can take some of the worry off the table because he has locked in his $1 million principle and if he were to die, his beneficiary would still get $1 million. Note that this $1 million would be paid out directly to the beneficiary and therefore bypass probate. This will save the estate approximately $14,500 for an Ontario resident.

If anything, the death benefit guarantee gives a bit of certainty in the preparation of an estate plan. As a worst-case scenario, our 80-year-old can plan with a high degree of certainty that he will be able to leave at least $1 million to his beneficiary even if markets crash.

Truth be told, if estate planning is a major concern then this tool is one you'll really want to consider adding to your financial plan. And since it works just like your current mutual fund RRSP, TFSA, RRIF, or LIRA accounts you won't need to second guess your decision. It's like big box hardware is offering that power tool super saver deal with batteries included!

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Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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